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Current Support Brief

STATUS OF CUBAN FOREIGN EXCHANGE HOLDINGS



CENTRAL INTELLIGENCE AGENCY
Office of Research and Reports

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W A R N I N G

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STATUS OF CUBAN FOREIGN EXCHANGE HOLDINGS

By the end of 1961, Cuba's convertible foreign exchange reserves were virtually exhausted. Although the exact size of these reserves is not known, they probably did not exceed

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The reduction of foreign assets to these low levels has left Cuba without the resources needed to compensate for seasonal variations in its rate of exports and to help protect the economy from emergency contingencies such as the current decline in sugar production. The country is under strong pressure to restrict further its already inadequate level of imports--particularly from areas outside the Sino-Soviet Bloc, where imports will be further reduced this year. In some measure the sacrifice of these funds also will force the regime to make a difficult choice between expenditures for needed imports and expenditures for other purposes such as defense and subversion, which have little or no relation to the functioning or development of the economy.

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It is highly unlikely that Cuba will be able to improve its convertible exchange position during 1962. [REDACTED]

[REDACTED] With a sharp reduction in sugar supplies available for export resulting from the current short harvest, the maintenance of the Bloc quota clearly will force curtailment of exports to countries of the Free World. Various press reports last February indicated that sugar exports to the European Satellites would be virtually eliminated in order to maintain sales to hard currency areas. Evidently these reports were in error, as sugar continued to move to the Satellites throughout the first 6 months of 1962 in amounts sufficient to fulfill the original commitments. Only Communist China seems to have reduced its purchase quota, and this reduction was

*Tonnages are given in metric tons throughout this Brief.

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relatively small, being only 200,000 tons. 8/

It appears that Cuba will have only about 1 million tons of sugar available for export to non-Bloc markets in 1962 compared with 1.6 million tons in 1961. No support for hard currency income and reserves can be expected from rising prices in the sugar market. Although current world prices have recovered somewhat from the low levels of early 1962, they are still below the average for 1961. Thus the combination of reduced sugar production, heavy export commitments to the Bloc, and continued weakness in the world sugar market all combine to indicate that Cuba's convertible exchange resources will remain very limited throughout the remainder of 1962 and probably beyond.

Although Cuba had expended almost all of its convertible exchange by the end of 1961, its total external assets were not exhausted. Cuba probably held some credit balances in its bilateral clearing accounts with both Bloc and non-Bloc countries. In the case of the Bloc, Cuba probably had available surpluses in its accounts with the USSR and Communist China at the end of 1961. /

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/ It is likely that Cuba also had a credit balance in its bilateral account with the USSR. During 1960 and 1961, Cuba ran a cumulative export surplus to the USSR totaling about \$100 million for the 2 years. 10/ Perhaps as much as one-half of this amount was absorbed by hard currency payments from the USSR to Cuba. More of it was probably accounted for by Cuban payments for Soviet arms shipments. There is evidence, however, that these payments did not utilize the whole surplus and that some credit balances were still available at the end of 1961. /

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These clearing balances will help Cuba finance an increased level of imports from the Bloc during 1962.

In contrast, imports from non-Bloc countries will be reduced during 1962. Given the fact that exports to the Free World will be reduced both in volume and value in 1962, the near extinction of convertible reserves means that Cuba will be unable to finance imports from countries of the Free World at the 1961 rate. That rate was already inadequate to meet many of Cuba's pressing needs. Imports from

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the West provide Cuba with spare parts and replacement components necessary to maintain its industrial plant and also certain raw materials and capital items that evidently are not readily available from the Bloc. Reduction in imports from the Free World below 1961 levels will mean further deterioration of Cuba's existing capital stock and probably an increase in the raw material shortage that has become a chronic problem for the Cuban economy.

Cuba's loss of hard currency income from reduced sugar exports and lower prices during 1962 will probably be about \$50 million, but the total reduction of Cuban imports from the Free World could exceed the \$50 million income loss.

This situation may result if Cuba continues, as it has in the past several years, to make large expenditures for purposes other than merchandise imports. This heavy non-commercial drain on Cuba's resources during 1960 and 1961 was the principal factor underlying the virtual destruction of Cuba's reserves. It is clear that these expenditures can no longer be financed out of exchange balances. If they continue, therefore, they will, of necessity, have to be financed from current income, thus leaving still fewer reserves available to pay for imports.

The magnitude of these expenditures indicates that their elimination will present a major problem. In 1960 and 1961 together, Cuba evidently expended [] of its reserves. During that same period, however, Cuba's balance of trade showed a substantial surplus of exports over imports, indicating that the noncommercial expenditures absorbed not only reserves but a portion of current income as well. In 1961, in spite of a total export surplus, Cuba's trade balance with convertible currency areas alone does show a deficit and thus helps explain in part the exchange loss for that year. The exact size of the deficit is unknown, for it is not clear just how much hard currency Cuba received from the Bloc in exchange for sugar exports. Enough evidence is available, however, to indicate that the deficit is far short of the exchange loss and that at least [] of the reserve decline remains unaccounted for.

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The nature of this drain on Cuba's resources, unfortunately, is not clear. In respect to 1960, it is possible that large movements of flight capital took place before the economy was fully nationalized, and these movements may account for a substantial proportion of the hard currency losses of that year. No such explanation can be offered

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for 1961, however, when all foreign trade and exchange operations were in the hands of the state. Hard currency payments to the Bloc for military assistance, expenditures for propaganda and subversive activity in Latin America, payments for the services of non-Bloc foreign technicians, and normal miscellaneous payments to various countries of the Free World undoubtedly account for at least some of these funds. On the basis of existing evidence, however, an adequate explanation of these expenditures is not possible, and accounting for them remains more a matter of conjecture than anything else. In any event, it is clear that Cuba cannot continue these payments without cutting down still more on its imports.

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